

Message Text

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ACTION EUR-12

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CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 DODE-00

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 1541

DEPT TREASURY WASHDC

C O N F I D E N T I A L ROME 19642

E.O. 11652: GDS

TAGS: ECON, EFIN, PFOR, PGOV, PINT, IT

SUBJECT: BUDGET & PLANNING MINISTER APPEALS FOR U.S. SUPPORT
DURING ANDREOTTI VISIT AND COMMENTS ON DEVELOPMENTS
RELATING TO GOVERNMENT'S STABILIZATION PROGRAM

1. ON DEC 1 THE AMBASSADOR CALLED ON MINISTER OF BUDGET &
PLANNING MORLINO, WHO HAD TAKEN UP LONG-STANDING THOUGH DOR-
MANT REQUEST BY THE AMBASSADOR FOR COURTESY CALL.

2. MAIN ITEM OF SIGNIFICANCE DURING CONVERSATION WAS LENGTHY
AND STRONGLY-WORDED PLEA BY MORLINO FOR USG TO GO BEYOND THE
EXPECTED EXPRESSIONS OF SUPPORT FOR ITALY DURING PRIME MIN-
ISTER ANDREOTTI'S FORTHCOMING VISIT TO WASHINGTON. MORLINO
ASSERTED THAT USG WOULD UNDOUBTEDLY MAKE STATEMENTS OF SUP-
PORT FOR ANDREOTTI'S EFFORTS AND OF READINESS TO ASSIST ITALY,
BUT TEMPERED BY CONDITION THAT ITALY CARRY THROUGH ON STRONG
ECONOMIC PROGRAM AND COME TO TERMS WITH IMF. HOWEVER, MOR-
LINO CONTINUED, AN ADDITIONAL "SIGN" OF SUPPORT (NOT FURTHER
SPECIFIED) WOULD BE OF GREATEST IMPORTANCE TO ITALY AT THIS
DIFFICULT MOMENT. MORLINO THEN AMPLIFIED ON THIS THOUGHT WITH
NUMEROUS REFERENCES TO LONG HISTORY OF U.S.-ITALY TIES, EX-
TENSIVENESS OF U.S. INFLUENCE IN ITALY, ETC.

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3. THE AMBASSADOR EXPRESSED SYMPATHY WITH MORLINO'S REMARKS AND UNDERSTANDING OF THE IMPORTANCE TO ITALY OF U.S. ATTITUDE AND POSITION. HOWEVER, HE UNDERLINED TO MORLINO THE NECESSITY FOR ITALY TO SHOW BY ITS PERFORMANCE ITS SERIOUSNESS IN STABILIZATION EFFORT, IF IT EXPECTED TO RECEIVE TANGIBLE SUPPORT FROM USG. MORLINO ACKNOWLEDGED THE AMBASSADOR'S STATEMENT BUT PRESSED FOR USG TO VIEW ITS INTERESTS IN AND ATTITUDE TOWARD ITALY IN BROADER POLITICAL CONTEXT.

4. WITH REFERENCE TO CURRENT POLITICAL-ECONOMIC SITUATION, MORLINO MADE FOLLOWING COMMENTS:

(A) IN RESPONSE TO THE AMBASSADOR'S QUESTION WHETHER RISING DEMANDS ON GOI BUDGET WOULD MAKE IT NECESSARY TO INCREASE REVENUES BEYOND PROPOSED 5,000 BILLION LIRA LEVEL, MORLINO AGREED THAT VARIOUS EXPENDITURE INCREASES WOULD HAVE TO BE MADE AND ASSERTED THAT ONLY 1,000 BILLION LIRA OUT OF THE 5,000 TOT WOULD BE AVAILABLE FOR INCREASED EXPENDITURES. HE DID NOT DIRECTLY ADDRESS QUESTION OF POSSIBLE REVENUE INCREASES, BUT RATHER NOTED THAT SOME FISCALIZATION OF LABOR COSTS WAS LIKELY AND THAT WOULD UNDOUBTEDLY RESULT IN AN INCREASE IN VALUE-ADDED TAX.

(B) MORLINO EXPRESSED CONCERN OVER HIGH RATE OF INFLATION BUT INDICATED OPTIMISM THAT GOI WOULD BE ABLE TO LOWER RATE BY 4-5 POINTS BY THE END OF 1977. EXISTENCE OF INFLATIONARY PSYCHOLOGY ALSO WORRIED MORLINO. INTERESTING EXAMPLE OF INFLATIONARY EFFECTS OF WAGE ESCALATOR INDEXATION (SCALA MOBILE) WAS ASSERTION BY MORLINO'S CHIEF OF CABINET THAT AN INCREASE IN ROME BUS FARE FROM 50 TO 100 LIRA WOULD PRODUCE 450 MILLION LIRA IN INCREASED REVENUE BUT WOULD COST CITY GOVERNMENT 1 BILLION LIRA IN INCREASED WAGES RESULTING FROM SCALA MOBILE.

(C) WHILE MORLINO AVOIDED EXPRESSING OPINION ON EVENTUAL OUTCOME OF LABOR-MANAGEMENT NEGOTIATIONS ON LABOR COSTS, HE WAS CRITICAL OF LABOR'S ATTITUDES. HE ASSERTED THAT UNION LEADERSHIP HAD READILY AGREED TO ABOLITION OF SEVEN HOLIDAYS ONLY TO FIND ITSELF FACING SEVERE PRESSURE FROM RANK AND FILE, NOT SO MUCH ON SUBSTANCE OF ISSUE BUT RATHER ON FACT THAT

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RANK AND FILE HAD NOT BEEN CONSULTED BEFOREHAND BY THE LEADERSHIP. MORE GENERALLY, MORLINO ASSERTED THAT LABOR HAD MISSED THE OPPORTUNITY TO PROVIDE LEADERSHIP IN WORKING OUT STABILIZATION PROGRAM, IN WHICH CASE IT COULD HAVE GREATLY INFLUENCED THE FORM OF THE PROGRAM. NOW, HOWEVER, IT HAS BEEN PUT IN A DEFENSIVE POSITION, WHICH IS NOT HELPFUL TO ANYONE. VOLPE

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